review of issues in

amending the canada pension plan

Ontario Ministry of Treasury, Economics & Intergovernmental Affairs

REVISED

REVIEW OF ISSUES IN AMENDING THE CANADA PENSION PLAN

Ontario
Ministry of Treasury, Economics and
Intergovernmental Affairs

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PREFACE

This paper is one of two being forwarded to all governments participating in the Canada Pension Plan as part of Ontario's contribution to the review of the Plan. The other document, PENSIM: Canada Pension Plan Simulation Model, describes the operation of a computer model which simulates the Canada Pension Plan. This report contains a preliminary review of the issues.

The paper is not an expression of an "Ontario position". It simply attempts to make an initial contribution to an understanding, from the provincial point of view, of the general issues which are involved in amending the Canada Pension Plan. Our view is that discussion of the complex details of the Canada Pension Plan should be preceded by a thorough review of the basic issues. Therefore the amendment process should relate the Canada Pension Plan to a broad spectrum of income security objectives, programs and provincial financial needs.

It is hoped that this document, and the PENSIM report, will add to the elements which are essential to a comprehensive review of the Canada Pension Plan, that is, a thorough definition of the issues and a capacity to develop and test a range of alternative policies.

The Honourable Charles MacNaughton,
Treasurer of Ontario and
Minister of Economics and
Intergovernmental Affairs.

H. I. Macdonald,
Deputy Minister,
Ministry of Treasury, Economics
and Intergovernmental Affairs.

TABLE OF CONTENTS

I SUMMARY

The federal government has proposed to amend the Canada Pension Plan, as outlined in its white paper on income security.[1] Amendment of the Plan requires the consent of two-thirds of the participating provinces representing two-thirds of the participating population. The process of amendment, therefore, will require extensive federal-provincial consultation.

The Canada Pension Plan is a highly complex and centrally important program in the field of Canadian income security and social insurance. It has also proved to be a vital instrument for the provision of social capital to Canadian society through its provisions for provincial borrowing from the investment fund. Therefore, changes in the Plan should be carefully analysed and assessed from the provincial point of view.

The increases in retirement benefits are proposed by the federal government in order to realign benefits with wage and price increases over the past six years. However, the basic thrust of the proposed federal amendments is to substantially increase widows' and disability benefits. Enrichment of these benefits partially shifts the focus of the Plan away from the retirement area.

The federal proposals, when examined within the context of recent increases in Guaranteed Income Supplement and Old Age Security benefits, indicate an increasing reliance on a guaranteed income approach in which the Canada Pension Plan plays a supplementary role. For example, even with increased retirement benefits under the proposals, there will not be a large differential between CPP and GIS income levels.

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1. Hon. John Munro, Income Security for Canadians (Ottawa: Department of National Health and Welfare, 1970).

It is the Ontario view that these proposals should be considered within the context of a comprehensive review of the long-run social insurance and income security objectives and the roles of federal and provincial programs in achieving those objectives. Concurrent with these general concerns there are also a number of specific issues which should be settled, such as the earnings test and the question of adjusting benefits in line with cost-of-living changes.

Since 1966 the Canada Pension Plan investment fund has accumulated much faster than originally anticipated such that the current size of the fund exceeds the initial estimates by over $1 billion. Virtually all of the available capital has been borrowed by the provinces. The federal government proposes to finance higher benefits by an increase in contributions through an increase in the earnings ceiling and a decrease in the rate of buildup in the investment fund. Moderate inflation projections indicate that the fund will be $7 billion lower in 1990 if the proposals are adopted.

Amendments to the Canada Pension Plan should also be evaluated in terms of their long-run relationship to provincial finances. Under existing arrangements the investment fund would reach its peak in 2008 at $48.4 billion. Adoption of all federal proposals would advance the peak year to 1993 at $23.3 billion. It is also important to note that under the proposed plan, provincial interest payments alone will exceed new capital funds available by 1982.

In July 1972 the Quebec Government passed an act to amend the Quebec Pension Plan as of January 1, 1973. These amendments do not parallel the federal proposals. The financial implications of adopting the Quebec amendments for the Canada Pension Plan are similar to those of the federal proposals.

II BACKGROUND

The Canada Pension Plan (CPP) began operating on January 1, 1966 as a social insurance program in which both benefits and contributions would be primarily related to the lifetime earnings of the contributor. The basic objectives of the Plan were to:

- guarantee an income-related pension to every member of the labour force;
- provide basic social insurance to each labour force member and direct dependants in the event of death or total disability;
- provide a source of capital to the provinces.

Although the CPP is commonly thought of as a pure social insurance program, it contains important provisions, such as non-earnings-related benefits, which also give it the characteristics of a social welfare plan.

Guaranteed Income Supplement (GIS) payments began in 1967, the same year in which CPP benefits commenced. The GIS was initially intended as a temporary program, to be phased out when the Canada Pension Plan matured in 1976.[1] At present, 945,000 persons are receiving GIS payments and 241,000 are receiving CPP retirement benefits.[2]

In its 1970 white paper on income security, the federal government proposed to establish the GIS as a permanent program, to continue universal Old Age Security (OAS) payments, and to amend the Canada Pension Plan. The proposed CPP amendments are basically designed to meet two problems as seen by the white paper.

1. Gaps remain in the income security system, particularly for widows and disabled people.
2. CPP contributions and benefits have not kept pace with the growth in average Canadian wages.

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1. Hon. John Munro, Income Security for Canadians, p. 41.
2. In addition, 143,000 persons receive survivor and disability benefits.

The basic direction of the proposed CPP amendments is to substantially increase widows' and disability benefits and to increase retirement benefits and contributions through a series of selective increases in the earnings ceiling (Year's Maximum Pensionable Earnings -- YMPE).

CPP BENEFITS BEGINNING IN 1976*

(Annual Maximum)

	Current Plan $	Proposed Plan $	Increase %
Retirement pension	1,467	1,925	31
Total Disability pension	1,459	2,944	102
Widow's pension	909	2,463	171

* Based on moderate inflation assumptions (see footnote 1).

1. Unless otherwise indicated, all further tables in this report are based on the "moderate inflation" assumptions used in the Department of Insurance, Canada Pension Plan Actuarial Report (Ottawa: December 31, 1969). The growth rate assumptions are:

	1970	1971	1972 %	1973	1974	1975+
- Increase in Average Earnings	6.5	6.3	6.1	5.9	5.7	5.5
- Increase in Consumer Price Index	4.0	3.8	3.6	3.4	3.2	3.0
- Annual Interest Rate on New Investments	8.0	7.7	7.4	7.1	6.8	6.5

These figures are used to maintain compatibility with the federal Actuarial Report even though actual figures are available for the years 1970 and 1971. Subsequent Ontario PENSIM analysis will incorporate recent changes in these indicators.

In its 1972 spring budget, the federal government enriched the Old Age Security and Guaranteed Income Supplement programs by increasing combined maximum payments by $15 per month and making provision for future adjustments in line with changes in the Consumer Price Index. These programs now guarantee an income to senior citizens which closely approximates the Economic Council's suggested poverty line.[1]

MAJOR PUBLIC SECTOR ELDERLY INCOME SUPPORT PROGRAMS AND POVERTY LEVELS, 1972

	OAS-GIS (Guaranteed Income)	OAS-CPP (maximum)	Poverty Line*
	$	$	$
Married	3,420	2,799	3,456
Single	1,800	1,805	2,074

* Based on Economic Council of Canada 1969 poverty line escalated by Consumer Price Index to 1972.

1. Report of the Special Senate Committee on Poverty, Poverty in Canada (Ottawa, 1971), p.8.

III ROLE OF THE CANADA PENSION PLAN

The Canada Pension Plan is one of a number of programs which relate exclusively or primarily to elderly people. These programs have reached massive financial proportions. In Canada, federal spending in 1972-73 on the GIS and OAS programs alone will amount to $2.3 billion.[1] In addition, the provinces incur large additional expenditures in such areas as institutional and health care, public housing, welfare and property tax relief. The federal government contributes financially to some of these programs through various shared cost programs.

The Canada Pension Plan can, therefore, be seen as one of a number of programs which provide income, service and assistance to elderly people. It follows that amendments to the Canada Pension Plan should take into account the amount and type of benefits available from other programs to ensure a consistent overall social policy for the elderly.

The federal white paper, however, does not articulate a clear role for the Canada Pension Plan within the context of overall income security policy. It simply proposes to enrich benefits and alter the emphasis of the Plan from retirement to supplementary benefits for widows, the totally disabled and their dependants. The recent increases in OAS-GIS benefits reinforce the apparent de-emphasis on CPP retirement benefits.

As mentioned above, the Canada Pension Plan combines insurance and social welfare characteristics. The term "social insurance" generally characterizes aspects of the Plan which do not involve internal subsidies and which are roughly parallel to private sector operations. The term "welfare" describes operations of the Plan which involve subsidies and parallel in other ways public

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1. Hon. John Turner, Supplementary Information on the Budget (Ottawa: Department of Finance, May 8, 1972), p.5.

sector income support programs. Major insurance-related aspects of the Plan are:

- contributions and a substantial proportion of benefits are based on contributor earnings;
- contributions are made through special payments and are deductible from taxable income;
- the Plan operates through a fund which makes investments and earns interest;
- most benefits are not related to the current need or income of the beneficiary.

Social welfare aspects of the Plan are:

- retirement benefits between ages 65 and 69 are offset through an earnings test;
- internal subsidies occur through flat-rate benefit payments which are not related to contributions and through pension payments to those who contributed over a brief number of years;
- pensions are increased through a "drop-out" provision in the calculation;
- generally the value of benefits is greater than the value of contributions made.

Basically, policies for change in the CPP can emphasize certain welfare or insurance aspects of the Plan, depending on the overall income security objectives as they relate to particular target groups and the role of the Plan within these objectives. Under the federal proposals, both aspects of the Plan would be extended with more emphasis on the welfare side.

The rest of this section reviews the two major benefit streams of the CPP in relation to general income security policy.

Retirement Benefits

In order to compare income security programs for the elderly, it is useful to identify the major target groups which are served by these programs. These groups are identified below on the basis of individual reliance on public sector income support.

1. The Independent

   People in this group provide for their own retirement needs. Normally they do this by contributing to a private pension plan, by purchasing a retirement savings plan or through other forms of saving which produce a retirement income. Their capacity to save is created through income gained by long participation in the labour force and/or possession of independent means.

2. The Semi-Independent

   This group includes people who for various reasons do not adequately save for their retirement. These people are part of the labour force during their adult years but may experience high job mobility, periods of unemployment, generally low income or lack of opportunity to participate in private plans.

3. The Dependent

   This category includes those who never become part of the labour force for any significant length of time, generally because of disability. At age 65, they are more or less totally dependent on the public sector for support.

The Canada Pension Plan was designed to provide for people in the first two groups. It provides an earnings-related income for the financially independent to which their private retirement income is added. People in the second group have an opportunity, which they would not otherwise have, to earn the right to a basic retirement income. The Guaranteed Income Supplement was basically designed to support people in the second group until the Canada Pension Plan matured. Since the GIS was introduced as a temporary program, the implicit objective was presumably that the third group of people would be eventually covered only by Old Age Security and social assistance.

In broad terms, there are two approaches which can be adopted in providing for the three target groups - a guaranteed income approach or a selective approach.

Under a pure <u>guaranteed income</u> concept, those who do not or cannot provide for their own needs, for whatever reason, are supported through a guaranteed annual income. Within the context of present programs, this would be provided by OAS and GIS payments which guarantee at least a poverty line income.

The Canada Pension Plan plays an intermediate role in this approach by replacing for some people part of the guaranteed income stream so that a portion of retirement income is "earned". However, CPP income would not be significantly greater than the income which a person would receive from other programs had he never contributed to the Plan.

A <u>selective approach</u> would create a basic distinction in the treatment of pensioners who find themselves primarily dependent on the public sector for income support, i.e. groups two and three. An earnings-related plan would exist for those who, through their working lifetime, were able to generate savings but for various reasons did not or could not participate in private pension plans. Those with limited or sporadic attachment to the labour force would receive a guaranteed minimum income.

Under the selective approach, the Canada Pension Plan would have a stronger independent role as a retirement income insurance scheme geared to providing earnings-related benefits. In order to encourage long-term participation in the labour force and to minimize the number of people who receive welfare-type payments, benefits would be set at a significantly higher level than those provided by the GIS.

In its white paper proposals and recent changes in the OAS-GIS program, the federal government has essentially adopted a guaranteed income approach. OAS-CPP income levels alone will not be significantly higher than the guaranteed minimum income and some CPP recipients will receive GIS benefits, even though they are eligible for maximum CPP pension levels. This would apply even with the enrichment of benefits proposed by the white paper as indicated in the following table.

OAS-GIS INCOME AND PROPOSED CPP RETIREMENT BENEFITS IN 1976

	Guaranteed OAS-GIS Income $	OAS-CPP Pension $	GIS Add-on $	Total $
		Maximum CPP pension		
Single	2,050	3,057	0	3,057
Married*	3,894	4,190	1,149	5,339
		Three-quarters CPP pension		
Single	2,050	2,576	195	2,771
Married*	3,894	3,709	1,269	4,978
		One-half CPP pension		
Single	2,050	2,095	436	2,531
Married*	3,894	3,227	1,389	4,616

* Married couples -- both 65 with one contributor to CPP.

As indicated in the above table, the combination of OAS and CPP benefits will not be significantly greater and in some cases it will be lower than the guaranteed income level. For example, a married couple entitled to full CPP benefits in 1976 will have a CPP-OAS income which is only $296 above the poverty line. They would still be entitled to $1,149 in GIS benefits. Thus, although better off under CPP, many people will not receive significantly greater incomes than those who never contributed to the Canada Pension Plan, and their income will still be supplemented by GIS payments.

The interrelationship between Canada Pension Plan and GIS benefits can be further illustrated by comparing benefit levels under the existing and proposed CPP schemes. For people retiring within the next ten years, some advantages will be gained from the proposed increase in CPP retirement pensions. However, if the Canada Pension Plan were not amended, many would receive a portion of what they did not gain under CPP through GIS payments, particularly in light of the GIS increases announced in the federal budget of May 8, 1972.

EXISTING AND PROPOSED MAXIMUM CPP BENEFITS

	1 9 7 6			
	CPP	OAS	GIS	Total
	$	$	$	$
Single				
Existing	1,467	1,132	184	2,783
Proposed	1,925	1,132	0	3,057
Married*				
Existing	1,467	2,265	1,269	5,001
Proposed	1,925	2,265	1,149	5,339
	1 9 8 0			
Single				
Existing	1,825	1,275	119	3,219
Proposed	2,458	1,275	0	3,733
Married*				
Existing	1,825	2,549	1,378	5,752
Proposed	2,458	2,549	1,222	6,229

* Married couples -- both 65 with one contributor to CPP.

Supplementary Benefits

A major objective of the white paper proposals is to increase existing disability and survivor benefits under the Canada Pension Plan in order to fill what the white paper cites as a major gap in the Canadian income security system. The following table compares annual benefits under the current and proposed systems for the year 1976.

ANNUAL MAXIMUM SUPPLEMENTARY BENEFITS UNDER CURRENT AND PROPOSED PLANS IN 1976

	Current Plan $	Proposed Plan $	Increase %
Disability			
Disabled Contributor	1,459	2,944	102
Wife of Disabled	-	1,019	n.a.
Child of Disabled	359	359	0
Survivor			
Widow	909	2,463	171
Invalid Widower	909	2,463	171
Orphan	359	359	0
Death Benefit (lump sum)	610	820	34

In the case of both widows' and disability pensions, the flat-rate benefit portion would be raised from $28.15 to $80 per month, in order to achieve compatibility with Old Age Security payments.[1] The earnings-related component would be increased from 75 to 100 per cent of the retirement pension in the case of total disability, and from 37.5 to 75 per cent for widows' pensions. No changes have been proposed to cover the survivors of married female contributors, with the exception of invalid widowers.

1. This feature was designed to achieve compatibility with pre-April 1972 OAS benefits. Since OAS will now be inflated in accordance with changes in the Consumer Price Index, further modifications will be needed if total compatibility is to be maintained.

These changes reflect an extension of both the insurance and welfare characteristics of the Plan; the former through the increase in earnings-related benefits and the latter through the increase in the flat-rate benefits. The increase in flat-rate benefits to $80 per month will create, in a sense, the partial equivalent of an Old Age Security program for widows and disabled people, who either contributed or had a spouse who contributed to the Canada Pension Plan.

These proposals for supplementary CPP benefits should be reviewed in relation to longer term objectives with respect to people who are generally not part of the labour force, the impact on provincial social assistance programs, and alternative possibilities for delivering equivalent benefits.

IV FINANCING OF CPP BENEFITS

The impact of any amendments on the future buildup of the Canada Pension Plan fund is of vital concern to all participating provinces. This fund has become a very important source of provincial capital and will likely continue to be so in the future.

Canada Pension Plan revenues are derived from employee and employer contributions. Payments equal 3.6 per cent of gross income, up to an earnings ceiling called the Year's Maximum Pensionable Earnings (YMPE). Since the inception of the Plan, contributions have far outstripped benefits, resulting in a much greater buildup of the investment fund than was originally anticipated. At the end of 1971, the fund stood at $4.4 billion, some $1.5 billion higher than the original estimate. The 1964 estimates were low because population growth and wage increases were underestimated, and interest rate projections were too low.

CANADA PENSION PLAN INVESTMENT FUND,
CALENDAR YEAR BASIS 1966-71

($ million)

	1964 Projection	Actual Fund
1966	423	463
1967	900	1,135
1968	1,399	1,846
1969	1,925	2,654
1970	2,461	3,522
1971	2,979	4,444

Source: Department of National Health and Welfare, Canada Pension Plan Branch; and Department of Insurance, The Canada Pension Plan Actuarial Report (Ottawa, 1964).

Initially, it was anticipated that the break-even point for the CPP fund (the point where expenses exceed revenues) would occur in the mid-1980's. Revised projections for the existing plan show that the fund would continue to grow beyond the year 2000.

As outlined in the previous section, the federal proposals involve increases in both retirement and supplementary benefits. However, the contribution rate will not be increased; instead, individual contributions to the Plan will rise because of the higher YMPE. The following table compares projected benefit and contribution streams to the year 2000 under the existing and proposed provisions.[1]

PENSIM PROJECTIONS OF CPP BENEFITS AND CONTRIBUTIONS
($ billion)

	Benefits and Expenses		Contributions	
Year	Current Plan	Proposed Plan	Current Plan	Proposed Plan
1972	0.3	0.3	0.9	0.9
1973	0.3	0.5	0.9	1.0
1974	0.4	0.6	1.0	1.1
1975	0.5	0.7	1.0	1.3
1976	0.5	0.8	1.1	1.4
1977	0.7	1.0	1.2	1.5
1978	0.8	1.2	1.3	1.6
1979	0.9	1.4	1.4	1.7
1980	1.2	1.8	1.4	1.9
1985	2.0	3.1	2.2	2.8
1990	3.3	4.9	3.0	4.0
1995	5.1	7.4	4.2	5.6
2000	7.4	10.7	5.8	7.9

An increase in the YMPE has the effect of increasing contributions for all contributors whose gross income is greater than the original YMPE. Under the existing plan, the YMPE would rise from $5,600 in 1973 to $5,800 in 1975. With the amendments, it would increase from $6,300 in 1973 to $7,800 in 1975.

1. Ministry of Treasury, Economics and Intergovernmental Affairs, PENSIM: Canada Pension Plan Simulation Model (Toronto, September, 1972).

As indicated in the previous table, the proposed increases in benefits are not completely financed by the higher volume of contributions. The balance of the financing would occur through a decrease in the rate of buildup in the investment fund. For example, by 1995 the fund under the existing plan is projected at $36.6 billion and would be exhausted in 2020. Under the proposals it would stand at $22.9 billion in 1995 and would run down to zero by 2007.

PENSIM FUND PROJECTIONS
($ billion)

Year	Current Plan	Proposed Plan
1972	5.3	5.3
1973	6.3	6.2
1974	7.4	7.2
1975	8.4	8.3
1976	9.6	9.4
1977	10.8	10.6
1978	12.0	11.7
1979	13.3	12.9
1980	14.5	13.9
1985	21.3	18.8
1990	29.2	22.6
1995	36.6	22.9
2000	42.7	17.5
2005	47.3	5.9
2007	48.2	0

Provincial Financing Needs

All revenues of the CPP fund, minus benefits and expenses of administration, are available for loans to the participating provinces. Each province is entitled to an amount proportional to its share of total contributions during the previous 10 years and residual amounts may be borrowed by the federal government. The loans carry 20-year maturities and bear interest rates equivalent to those offered on long-term Government of Canada bonds. The loans are callable by the Minister of Finance on 6 months notice if he deems it necessary to meet the requirements of the Canada Pension Plan. Over

a period of time, the size of the fund will be determined by the levels of CPP contributions and benefits, the interest rate on loans, the rate of inflation and economic and population growth.

The fund has become an extremely important source of financing to the provinces. Therefore, the determination of the role of CPP benefits in meeting social policy objectives should be balanced by consideration of long-term provincial financing needs. It should be borne in mind that provincial borrowing from the CPP fund in itself has contributed significantly to social and economic policy objectives by providing needed capital for areas such as health, education and environment.

There are essentially two kinds of break-even points in any projected series of fund levels. One is from the point of view of a recipient or a potential recipient of CPP benefits and occurs when the fund is exhausted and can no longer finance benefits. Moderate inflation projections for the current plan indicate that this point will not be reached until the year 2020. Adoption of the federal proposals would move it back to the year 2007.

However, from the point of view of provincial cash flow, the break-even point occurs much earlier. It takes place when provincial interest payments, or interest and principal repayments exceed the amount of new capital funds available. Under the current plan, given the assumptions of moderate inflation and that all available funds will be borrowed, this point will occur in 1988. If the new proposals are accepted in total, this point will occur in 1982. In that year interest payments of $973 million will exceed by $11 million the amount of new capital funds available.

The following table shows the annual amount of CPP funds available for loans to provinces and the net provincial cash flow after netting out interest payments for the period 1972 to 1985.

PENSIM PROJECTIONS OF NET PROVINCIAL CASH FLOW
UNDER THE CURRENT AND PROPOSED PLANS

($ million)

	Current Plan		Proposed Plan	
Year	Interest	Net Provincial Cash Flow	Interest	Net Provincial Cash Flow
1972	299	610	299	610
1973	366	595	366	508
1974	434	570	428	535
1975	502	550	493	558
1976	571	543	562	529
1977	643	524	633	478
1978	719	471	705	417
1979	797	425	778	319
1980	876	289*	849	96*
1981	952	284	910	48
1982	1,032	254	972	-10
1983	1,115	227	1,035	-89
1984	1,203	161	1,097	-180
1985	1,291	134	1,156	-253

* A notch occurs in the projection of the years 1979 to 1980 as the PENSIM computational procedure is converted to a long-range method from a short-range method.

Early recall of loans is projected to begin in 1998 under the proposed plan. At this point the Minister of Finance will begin to recall loans before they reach maturity. Early recalls under the current plan would begin in 2010.

The first CPP loans become repayable in 1986. In that year and in subsequent years, therefore, the net provincial cash flow will be further reduced by the amount of loan repayments. The following table shows the projected net provincial cash flow for selected years after 1985.

PENSIM PROJECTIONS OF LOAN REPAYMENTS AND
NET PROVINCIAL CASH FLOW UNDER THE
CURRENT AND PROPOSED PLANS

($ million)

	Current Plan		Proposed Plan	
Year	Loan Repayments	Net Provincial Cash Flow	Loan Repayments	Net Provincial Cash Flow
1986	383	108	383	-354
1987	764	20	765	-459
1988	719	- 61	719	-579
1989	818	-172	818	-722
1990	778	-273	778	-926
1995	1,052	-895	1,051	-1,843
2000	1,165	-1,578	1,953	-2,847

V AMENDMENTS TO THE QUEBEC PENSION PLAN

The 1970 white paper on income security and subsequent statements by the federal government have placed strong emphasis on maintaining total compatibility between the Canada and Quebec pension plans. In July 1972, Quebec passed an act to amend the QPP (Bill 24) which will take effect on January 1, 1973. These amendments do not parallel the federal proposals.

The major features of the Quebec amendments are:

- increase in YMPE to $6,300 by 1975, compared with $7,800 under the federal proposals;
- increase in ceiling in Pension Index from 2 per cent to 3 per cent;
- flat-rate benefits for widows' and disabled persons increased to $80 per month (same as federal proposals) with earnings-related portion of 37 1/2 per cent for widows and 75 per cent for disabled, compared with 75 and 100 per cent in federal proposals;
- orphans' benefits will be frozen at $29 per month in 1974;
- earnings test for pensioners aged 65-69 to be changed to a single offset rate of 50 per cent for any earnings exceeding the basic exemption;
- the three-year waiting period for amendments has been eliminated;
- widows who do not qualify for QPP payments will receive equivalent benefits through social assistance, 50 per cent financed by the Quebec Pension Plan.

The Quebec amendments are significantly closer to the federal plan than the proposals which were originally outlined in the Castonguay Report.[1] Generally, the main effect of the Quebec amendments is that initial retirement benefits will be about 22 per cent lower than those provided under the federal CPP proposals. However, they will be escalated at a higher rate since the Pension Index ceiling will be 3 per cent compared with 2 per cent under the federal proposals. For example, a CPP contributor retiring in 1976 on full benefits under the proposed plan would receive $1,925 in his first retirement year compared with a QPP pension of $1,584. By 1990 the initial $341 difference would be narrowed to $144.

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1. Government of Quebec, Report of the Royal Commission of Inquiry on Health and Social Welfare (Quebec, 1971), Volume V, Tome II.

The following table compares the major benefit streams under the existing plan, the federal proposals and the Quebec plan.

CPP AND QPP MAXIMUM PROPOSED
ANNUAL BENEFITS IN 1976 AND 1980

	1976		
	Current	Proposed	Quebec Amendments
	$	$	$
Retirement pension	1,467	1,925	1,584
Total Disability pension	1,459	2,944	2,232
Widow's pension	909	2,463	1,644
Orphan's pension	358	358	348
	1980		
Retirement pension	1,825	2,458	1,980
Total Disability pension	1,757	3,561	2,664
Widow's pension	1,072	2,946	1,920
Orphan's pension	388	388	348

The next table shows the effect of applying the Quebec amendments to the Canada Pension Plan. Although benefits are generally lower than those suggested by the federal government, the relatively lower YMPE and higher maximum in the Pension Index would result in a net impact on the CPP fund which is virtually identical to that of the federal proposals.

The effect of adopting the Quebec plan would be that the fund would reach a maximum level of $17.9 billion in 1989 compared with a maximum of $23.3 billion in 1993 under the federal proposals. From the provincial "cash flow" point of view, the turnaround point would occur in 1980.

PENSIM PROJECTIONS OF
CPP FUND WITH
QUEBEC AMENDMENTS

Year	Contributions ($ million)	Benefits and Expenses ($ million)	Fund at Year End ($ billion)
1972	871	262	5.3
1973	929	416	6.3
1974	985	501	7.2
1975	1,104	614	8.2
1976	1,150	732	9.2
1977	1,237	886	10.2
1978	1,315	1,064	11.2
1979	1,420	1,269	12.1
1980	1,521	1,576	12.9
1985	2,297	2,744	16.4
1990	3,201	4,412	18.0
1995	4,408	6,684	14.5
2000	6,155	9,644	4.1
2002	7,049	11,091	0

APPENDIX A

Summary of Policy Issues

SUMMARY OF POLICY ISSUES

Earlier sections of this paper have provided an initial basis for developing a general policy concerning the role of the Canada Pension Plan with respect to both benefits and financing. This section summarizes these general issues and, in addition, cites the major specific issues which will be raised during discussions on the CPP.

General Issues

1. Retirement Benefits

   The major issue concerns the relationship of CPP pension benefits to other income support programs for the elderly and the development and clarification of the specific objectives of the various programs.

2. Supplementary Benefits

   The role of the CPP in providing survivor and disability benefits should be assessed in terms of the long-term social policy objectives in this field and in relation to the possible role of other existing or potential programs.

3. Early Retirement

   A question of increasing importance, which is directly related to the above issues, concerns the provision of benefits to people under the age of 65. As the trend to early retirement increases, the delay of retirement income benefits until age 65 becomes increasingly arbitrary. Public retirement income policy will have to eventually take into account the group of people who are retiring early.

4. Provincial Finances

   Policy in the above areas must be balanced by long-run provincial financing objectives and needs.

Specific Policy Issues

1. Increasing YMPE to $7,800 in 1975

   This action underlies the basic thrust of the federal amendments. It increases the amount of contributions and increases the earnings-related portions of all future pension benefits. The development of a policy position on this issue is directly related to an overall position on the size of all benefits and the method of financing. The proposed YMPE change reflects the federal policy of adjusting the YMPE in line with the average industrial wage in Canada.

2. Adjustment Indexes

   The CPP currently uses two indexes to adjust contributions and benefits over time. The Earnings Index, which is based upon an eight-year moving average of Canadian wages and salaries, will be used to adjust the YMPE after 1975. The Pension Index is used to annually adjust pension benefits which are paid to individuals. It permits a maximum increase of 2 per cent per year.

   In light of the recent adoption of the Consumer Price Index as the adjustment factor for Old Age Security and Guaranteed Income Supplement payments, it may be consistent to extend the same provision to CPP benefits. If this were done, the Earnings Index may also have to be adjusted to ensure that contributions keep pace with increased benefits.

3. Earnings Test

   The existing plan provides that an earnings test be applied to retirement pension recipients aged 65 to 69. Payments are reduced by 50 per cent of earnings between 18 and 30 per cent of the YMPE, and by 100 per cent of

earnings over 30 per cent of the YMPE. For example in 1976 a person aged 65 entitled to full CPP benefits would receive no benefits if his income from salary or wages was $4,000 or more.

The white paper suggests that this provision be reviewed with the provinces. Removal of the provision would strengthen the insurance aspect of the Canada Pension Plan. However, if the social welfare aspects of the plan are to be emphasized, the earnings test should remain and the same principle could be extended to other payments such as widows' benefits.

4. <u>Relationship to Workmen's Compensation Benefits</u>

Both the Canada Pension Plan and workmen's compensation benefits provide pensions for prolonged and/or total disability and both pay survivor benefits. Provincial workmen's compensation plans generally pay for industrial employees when the death or disability occurs from an on-the-job accident. The CPP provides total disability coverage to all classes of workers. Additional payments are made for children and, under the proposals, for wives as well.

Currently, there are no provisions for integration between the two plans and, therefore, it is possible for someone to collect maximum benefits under both. A policy for integrating and off-setting benefits should be developed within the context of the CPP review.

5. <u>Contribution Rate</u>

There is currently no proposal to increase the contribution rate but nevertheless it exists as a potential policy alternative in light of the proposed benefit increases.

6. Benefit Transition at Age 65

Under the current plan disability pensions end at age 65 and are revalued as a retirement pension. Since the YMPE will be higher, the new retirement pension will be greater than the old disability pension. The revaluation will terminate benefits for children of such pensioners.

Under the federal proposals, no such transition would occur and the disability pension would continue beyond age 65, with a reduction equal to the OAS benefit. Thus, there is no upward revaluation, but children and wives of disability pensioners would continue to receive benefits.

APPENDIX B

Summary of Main Features of Current and Proposed Schemes

Item	Current Scheme	Proposed Scheme
1. Pension Index	Average of consumer price indices of 12 months ending with June of the preceding year. Maximum of 1.02 of preceding year's Pension Index.	No change
2. Year's Maximum Pensionable Earnings	$5,500 in 1972, escalated thereafter in line with Pension Index up to 1975. After 1975, escalated in line with Earnings Index.	Increase from $5,500 in 1972 to $6,300 in 1973, $7,100 in 1974 and $7,800 in 1975. Thereafter, escalated in line with Earnings Index.
3. Year's Basic Exemption	12 per cent of year's maximum pensionable earnings, rounded down to the nearest $100 (currently $600). For the self-employed, it is the same figure as long as his earnings exceed 1.33 of that figure (currently $800).	Maintain level of $600. Self-employed to contribute on earnings above $600 as long as his earnings exceed $800.
4. Earnings Index	Average of employee's average earnings for the eight years ending two years before the current year, divided by the corresponding average for the first eight years of the Canada Pension Plan.	No change
5. Contributory Rate	Employees between the ages of 18 and 65 must contribute at the rate of earnings between the year's basic exemption and the year's maximum pensionable earnings. This is matched by the employer. The self-employed contribute at the rate of 3.6 per cent.	No change
6. Retirement Pension	Amount payable in initial year of retirement dependent upon the average of the ratios of contributor's pensionable earnings to the year's maximum pensionable earnings during his contributory period. This ratio is multiplied by 25 per cent of the average of the most recent three levels of the year's maximum pensionable earnings. After the initial year of retirement, it is escalated every year by the Pension Index.	No change
7. Earnings Test	Retirement pensions, payable between the ages of 65 and 69, are offset at the rate of 50 per cent on other earnings in excess of 18 per cent of the year's maximum pensionable earnings for that year, and are fully offset on earnings in excess of 30 per cent.	To be reviewed.

Item	Current Scheme	Proposed Scheme
8. Disability Pension	Flat-rate component of $[illegible] (in 1972) plus 75 per cent of retirement pension contributor would have been entitled to, had he reached retirement age. After initial year combined amount is escalated every year by Pension Index. At age 65, the disabled pensioner is deemed to apply for a retirement pension which is revalued.	Flat-rate component to be raised to $80 (in 1973) plus 100 per cent of retirement pension. At age 65, this total is reduced by the OAS payment.
9. Benefit to Children of Disabled Beneficiaries	Flat-rate payment of $27.60 (in 1972) per month up to age 18, or 25 if still at school. This payment to be discontinued when father reaches 65. One-half of this amount to each child in excess of four. After initial year payment is escalated every year by Pension Index.	Payment not to be discontinued when father reaches 65.
10. Benefit to Wives of Disabled Beneficiaries	N O N E	$80 per month (in 1973) if she is under 65 and has dependent children in her care. Payment to be escalated every year by Pension Index.
11. Widow's and Disabled Widow's Pension[1]	A full pension consisting of a flat-rate payment of $27.60 (in 1972) plus an earnings-related portion equal to 37.5 per cent of retirement pension husband would have been entitled to, had he reached retirement age, is payable to disabled widows, to widows with young children and to widows 45 or over. When widow reaches 65, however, she receives 60 per cent of husband's retirement pension in addition to her Old Age Security payment. If widow is not disabled, does not have dependent children and is between 35 and 45, her full pension is reduced by 1/120th for every month that her age is less than 45. After initial year combined amount is escalated every year by Pension Index.	The full pension to be raised to $80 (in 1973) a month plus 75 per cent of husband's retirement pension. At age 65, this total is reduced by the OAS payment.
12. Disabled Widower's Pension[1]	The same pension available to a disabled widow is paid to a disabled widower if he was dependent on his wife at the time of her death.	Same as 11
13. Orphan's Benefit	Flat-rate payment equal to $27.60 (in 1972) payable to each of first four unmarried children of a deceased male contributor whether or not mother is alive. This amount is reduced by one-half for each child in excess of four. Payment discontinues when children reach 18, or 25 if still at school. Payment also payable to children of deceased female contributor who maintained them at time of her death. After initial year payment is escalated every year by Pension Index.	No change

Item	Current Scheme	Proposed Scheme
14. Death Benefit	Lump sum payment, equal to six times the monthly retirement pension, is paid to the estate of a deceased contributor, provided such payment does not exceed 10 per cent of the year's maximum pensionable earnings in year of death.	No change

1. In the case of a widow or a disabled widower who becomes entitled to the receipt of more than one pension, the total amount of benefits must not exceed 25 per cent of the average of the YMPE for the last three years, including the current year.

APPENDIX C

Derivation of Fund and Provincial Cash Flow

Chapter IV has set out the financing considerations of the Canada Pension Plan for the current and white paper alternatives. This appendix outlines the interaction of contributions and benefits in deriving the fund level in any year, and the gross and net cash flows available to the participating provinces.

The accompanying tables show how the flow of capital through the Plan is channeled to provide investment funds for the provinces. Gross revenue to the fund comes from three sources:

- contributions of employees, employers and the self-employed;
- provincial interest payments on the cumulative amount borrowed;
- repayments of principal as the loans mature; or, at the discretion of the Minister of Finance, subject to early recall as the funds are needed.

The gross revenue is then reduced by benefit payments and expenses of administration. The resulting net revenue is then available as investment capital to the participating provinces in that year.

While the amount of net revenue to the fund in each year is available to the provinces for investment purposes, the actual cash flow to the provinces is this figure, less provincial payments of interest and repayments of principal. Thus, even though the fund level itself may continue to rise, the net provincial cash flow may decline and become negative.

PENSIM PROJECTIONS OF FUND COMPONENTS UNDER THE CURRENT PLAN (CANADA LESS QUEBEC)

($ million)

Calendar Year	Contributions	Interest	Loan Repayments	Benefits and Expenses	Net Revenue	Fund at Year End	Net Provincial Cash Flow
1972	870	299	0	261	909	5,338	610
1973	913	366	0	318	961	6,325	595
1974	956	434	0	386	1,004	7,358	570
1975	1,030	502	0	480	1,052	8,439	550
1976	1,081	571	0	538	1,114	9,582	543
1977	1,177	643	0	652	1,167	10,781	524
1978	1,254	719	0	783	1,190	12,008	471
1979	1,358	797	0	932	1,222	13,267	425
1980	1,443	876	0	1,153	1,165	14,482	289
1981	1,570	952	0	1,286	1,236	15,752	284
1982	1,692	1,032	0	1,438	1,286	17,078	254
1983	1,839	1,115	0	1,613	1,342	18,461	227
1984	1,965	1,203	0	1,804	1,364	19,873	161
1985	2,171	1,291	0	2,037	1,425	21,343	134
1986	2,349	1,384	383	2,242	1,875	22,883	108
1987	2,486	1,485	764	2,466	2,269	24,406	20
1988	2,663	1,590	719	2,724	2,248	26,032	- 61
1989	2,824	1,688	818	2,996	2,334	27,610	- 172
1990	3,036	1,780	778	3,309	2,285	29,177	- 173
1991	3,226	1,866	845	3,604	2,333	30,778	378
1992	3,441	1,953	908	3,929	2,373	32,259	488
1993	3,663	2,040	961	4,283	2,381	33,750	620
1994	3,914	2,126	1,004	4,663	2,381	35,199	- 749
1995	4,174	2,213	1,052	5,069	2,370	36,594	895

PENSIM PROJECTIONS OF FUND COMPONENTS UNDER THE PROPOSED PLAN (CANADA LESS QUEBEC)

($ million)

Calendar Year	Contributions	Interest	Loan Repayments	Benefits and Expenses	Net Revenue	Fund at Year End	Net Provincial Cash Flow
1972	870	299	0	260	909	5,338	610
1973	992	366	0	484	874	6,248	508
1974	1,116	428	0	581	963	7,232	535
1975	1,265	493	0	707	1,051	8,306	558
1976	1,354	562	0	825	1,091	9,428	529
1977	1,464	632	0	986	1,110	10,574	478
1978	1,591	705	0	1,174	1,122	11,733	417
1979	1,713	778	0	1,394	1,097	12,871	319
1980	1,853	849	0	1,757	945	13,872	96
1981	2,018	910	0	1,970	958	14,866	48
1982	2,187	972	0	2,197	962	15,866	- 10
1983	2,360	1,035	0	2,449	946	16,853	- 89
1984	2,548	1,097	0	2,728	917	17,814	- 180
1985	2,836	1,156	0	3,089	903	18,760	- 253
1986	3,042	1,215	383	3,396	1,244	19,668	- 354
1987	3,265	1,275	765	3,724	1,581	20,534	- 459
1988	3,508	1,335	719	4,087	1,475	21,340	- 579
1989	3,758	1,384	818	4,480	1,480	22,053	- 722
1990	4,016	1,419	778	4,942	1,271	22,603	- 926
1991	4,295	1,440	845	5,374	1,206	23,014	-1,079
1992	4,585	1,453	909	5,839	1,108	23,267	-1,254
1993	4,900	1,458	874	6,334	897	23,345	-1,435
1994	5,227	1,454	963	6,867	777	23,216	-1,640
1995	5,598	1,439	1,051	7,442	647	22,868	-1,843